IDENTIFICATION

I, Timothy M Donovan, am an employee of American International Group. I am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I have 18 years of actuarial experience, much of which was related to individual life insurance product development. My current title is Vice President – Product Design and Development. I was asked to render an opinion on damages in connection with a block of Old Line Life Insurance Company and All American Life Insurance Company policies which may have been issued with underwriting which was not valid.

BACKGROUND AND SCOPE

At the time of an insurance policy application, the insurance company collects data to determine the both the insurability and the appropriate rate class of the applicant. For this block of policies, it is assumed that the underwriting data collected for each policy was not valid. Therefore, it is reasonable to assume that the mortality experience of the block of policies would be closer to that of the general population.

The scope of this report is limited to estimating the excess of death claims based on population mortality over the death claims based on the mortality used to set the cost of insurance rates for the policies (pricing mortality).

The block reviewed was all policies issued which had agent of record as Anthony Mercier Sr., Anthony Mercier Jr. or Charles W Mercier Jr. which are still in force. A list of policies is included in Attachment 1. A summary of the policies is as follows:

50 Universal Life (UL) policies issued by Old Line Life and All American Life from 1999-2002.

10 Term policies issued by Old Line Life and All American Life from 1999-2002.

METHODLOGY

For each policy, the difference in the expected (population) mortality rate and pricing mortality rate was calculated each year from 12/1/06 through either the end of the level term period (term) or to the maturity date (UL). For the term policies, the difference is multiplied by the face amount of the policy to determine the dollar amount of the additional mortality. For the UL policies, the difference is multiplied by the net amount at risk (face amount less account value). These amounts were then present valued to 12/1/06 at the interest rate described below.

Enclosure 2

ASSUMPTIONS

a. The calculations were done for each policy.
b. Any exposure to additional mortality risk prior to 12/1/06 was ignored.
c. Present values were done as of 12/1/06.
d. Present values were done using an interest rate of 5.5%, which is the investment yield rate for 7 year maturities as of 11/13/06 provided by the AIG Global Investment Group.
e. The pricing mortality used in the calculations was the table in effect at the time the policy was issued. The UL policies which were issued on an age last birthday (8 of the 50) were valued as if they were issued on an age near birthday basis.
f. Expected mortality was based on the 1991 population mortality table, extended past age 84 using the US 1979-81 population table as described in Appendix 2.
g. The net amount at risk for each UL policy was graded linearly from the net amount at risk as of 12/1/06 to $500 per $1,000 of face amount at the maturity date.
h. Any additional charges for extra mortality risks were ignored.
i. Base runs were done using as assumption of 100% persistency. A sensitivity is shown using the original pricing assumption for lapse rates.

RESULTS

The present values are shown using expected mortality of 100%, 150%, 200% and 300% of the population table. Using an expected mortality level greater than the population table is reasonable due to the potential for anti-selection which would be expected if the intent was to defraud the company during the underwriting process.

The following table shows the present value of the mortality differences

No lapses	Expected Mortality Percentage of 1991 Population Table			
	100%	150%	200%	300%
Term Policies	$ 188,017	$ 300,809	$ 401,384	$ 708,430
UL Policies	$ 418,103	$ 948,009	$1,304,666	$2,106,743
Total PV of additional mortality	$ 606,120	$1,248,818	$1,706,050	$2,815,173

Pricing Lapse Rates	Expected Mortality Percentage of 1991 Population Table			
	100%	150%	200%	300%
Term Policies	$ 107,499	$ 173,080	$ 233,382	$ 431,478
UL Policies	$ 378,016	$ 818,733	$1,152,567	$2,006,138
Total PV of additional mortality	$ 485,515	$ 991,813	$1,385,949	$2,437,616

Timothy M. Donovan FSA, MAAA
Vice President AIG American General

11/28/06
Date

RELIANCES

The following person(s) provided data and/or results used in this report:
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